

RFI Questions

Plan Structure

1. What type of plan structure would you recommend to best meet the statutory goals and objectives for the Program, which include simplicity, ease of administration for employers, preservation of principal and portability of benefits (e.g., a pooled fund with guaranteed interest credited to individual accounts on a regular basis that utilizes a gain and loss reserve? Individually held IRA-type accounts with a variety of funds from which participants could choose? Something else altogether?)

An IRA-type arrangement paired with a broad range of low cost mutual funds and /or collective investment trusts would offer simplicity, ease of administration, the potential for a meaningful accumulation of retirement savings long term, and portability of benefits.

Another important design element to consider is the level of fiduciary responsibility to be borne by employers taking part in the program or vendors providing services to it. This determination will have a broad impact upon the type and scope of investments to be offered and the cost structure of the program.

In addition, the coordination of payroll deferrals and account recordkeeping necessary for a program of this potential size will require the services of providers experienced with processing such administrative functions on a large scale basis.

Investment Options

2. What investments would you recommend to best meet the goals and objectives of the Program, both in terms of the types of funds and underlying assets, and the style of management (i.e., active vs. passive)?

An open architecture platform of both passively and actively managed mutual funds and collective investment trusts inclusive of target-date and asset allocation portfolios would provide transparency and meet the objective of offering varied investment needed to suit the needs of a demographically diverse participant base.

3. If you recommend more than one investment option, what would you recommend as the “default,” or automatic, option that would be chosen for participants who do not make an affirmative decision?

ADP would suggest considering either a suite of target-date funds or an asset-allocation portfolio comprised of a balanced mixture of equity and fixed income holdings.

4. Would you recommend including any insured interest or insured income products? Why or why not? What are the advantages and disadvantages of these products in terms of performance, risks, cost and transparency?

ADP does not offer proprietary insurance products as a part of its retirement services products and cannot comment on their suitability for the California Secure Choice program.

5. Would you recommend the Program provide a lifelong stream of guaranteed income? If so, how would you convert retirement savings into a lifelong retirement income stream, and what investment product would you recommend to accomplish this objective?

ADP does not offer proprietary guaranteed income products as a part of its retirement services products and cannot comment on their suitability for the California Secure Choice program.

6. Would your recommendations require changes to the investment policy parameters in SB 1234? If so, what modifications to the statute would you recommended, and why?

ADP's recommendation of the use of an open architecture mutual fund and collective investment trust based platform satisfies SB 1234's goals of transparency and competitive costs, and would not require changes to its current parameters

7. What recommendations would you make to ensure an effective risk management system is in place to monitor risk levels of the Program and ensure risks taken are prudent and properly managed?

To mitigate risk, consider enlisting service providers that can streamline and automate the necessary administrative processes in a meaningful fashion, such as the integration of payroll processing with account recordkeeping functions. Further, consider employing third party providers who are willing to assume fiduciary responsibility for the investment selection or performance of certain administrative functions of the program. Several vendors currently provide 3(21) and 3(38) investment fiduciary services and 3(16) administrative fiduciary services to ERISA qualified defined contribution plans in the retirement services industry; such services could be beneficial for the reduction of risk within the contemplated program.

Plan Design and Features

8. What would you recommend as the automatic, or "default," contribution level for participants who do not opt out, but who do not make an affirmative decision to contribute at a higher rate than the default rate?

Consider implementing an initial default deferral rate of 3%, equal to the rate specified within the safe harbor provision of the Pension Protection Act of 2006, paired with an automatic escalation feature.

9. What options, if any, would you recommend for an automatic escalation feature that increases participants' contributions over time?

An annual increase of 1-2% of participants' deferral rates, capped at a maximum percentage of 10-15%, is suggested.

10. Are there any other plan design features that should be included (or eliminated) to ensure the plan meets the goals and objectives of the Program? Please explain.

Consider low eligibility requirements and frequent entry dates to maximize participation and savings. Additionally, an employer match – such as is available in a SIMPLE IRA – would help drive participation and ensure the plan meets its goals and objectives.

11. What plan design elements would you recommend to minimize pre-retirement "leakage"?

Consider eliminating loans and limiting the reasons for pre-retirement withdrawals to address the Board's concerns of leakage. However, implementing such provisions could have the unintended effect of limiting participation.

Costs and fees

12. Provide an estimate of the ongoing administrative costs and fees of the investment options you recommend and identify the components of those costs and fees.

Without the benefit of knowing what the final administrative requirements, and the structure of the investment platform, or the allocation of fiduciary responsibilities, ADP is unable to provide an estimate. With that said, we do believe leveraging technology and an open architecture investment approach can keep costs reasonable while offering a competitive program.

13. How would you propose to assess fees to cover the costs required to start up the plan? Please identify the components of those costs and fees.

Costs for implementing a plan could be minimal or even non-existent if enrollment and education were conducted leveraging technology such as on-line enrollment and webinars for education.

14. How would you recommend the Board ensure transparency of fee and expense information available to the Board and Secure Choice participants including transparency of service providers' relationships or potential conflicts that may increase costs and/or conflict with the interests of plan participants?

Providing on-line disclosure of all program fees and expenses, akin to what is required of qualified plans under ERISA, to employers and employees would provide for complete transparency while mitigating related costs that might otherwise be associated with paper and other forms of delivery.

Administrative issues

15. What are your recommendations for identifying, and disseminating information to, eligible employers and employees (including employees of nonparticipating employers)? Consider the potential roles that could be played by California's Employment Development Department, any other state agencies or departments, and/or private sector vendors.

ADP recommends leveraging electronic communications whenever possible (web, e-mail) to create broad awareness while mitigating program costs. Additionally, partnering with various state agencies and third party providers such as insurers, healthcare providers and payroll providers could also help disseminate communications on a broader basis.

16. What are your recommendations for managing enrollment, the receipt and recordkeeping of employee payroll contributions and transactions, and managing rollovers in and out of Program accounts, including potential roles for the Employment Development Department, any other state agencies or departments, and/or private sector vendors?

Partnering with a qualified retirement plan provider should address these items, as these providers' recordkeeping systems are designed specifically to meet the needs stated above.

17. Do you have any particular concerns about, or anticipate any significant challenges with, administering the Program? If so, how would those concerns and challenges best be addressed?

Ensuring participant contributions are remitted to the IRA provider in a timely manner is a significant concern, particularly when working with small business owners. Partnering with providers that automate the remittance of payroll deferrals to the trust can help address this concern. Further, balancing the cost of providing services to a large number of low-balance accounts against the desire to provide a program with competitive features and pricing should be taken into consideration.

Legal issues

18. What approach would you recommend to demonstrate the Program is not subject to ERISA and that Secure Choice accounts would qualify for favorable federal income tax treatment generally granted IRAs?

As the question itself appears to assume, we believe that it is not clear under current law whether or not the Program would be subject to ERISA and that the accounts would qualify for favorable tax treatment. Accordingly, we recommend that the State of California request that the Internal Revenue Service (IRS) and US Department of Labor (DOL) issue additional guidance on these issues. It is not clear that such efforts would be successful; the IRS and DOL may determine that they could not issue guidance under the current statutes. In this case, additional legislation would be required. We would be willing to explore these issues with you in more detail if you so desire.

19. What further statutes and/or regulations would you recommend be enacted in order to strengthen the legal basis for this retirement savings program?

See response to #18, above.

Establishing a Retirement Investments Clearinghouse

SB 1234 grants the Board the authority to establish an online clearinghouse, and to register for inclusion on the website vendors who offer employer-sponsored retirement plans and payroll deduction plans and who meet specified requirements. The cost of establishing the registration process and the online clearinghouse would be borne equally by registered vendors.

20. Please provide your assessment as to whether there would, or would not, be sufficient interest from vendors to establish an online Retirement Investments Clearinghouse.

Vendor interest would likely be heavily influenced by the cost of establishing and maintaining such a clearinghouse, and the manner in which each vendor's competitive services are highlighted. It should be noted that the effectiveness of the clearinghouse in sourcing new business would need to be equal to or greater than that of the independent methods currently employed by retirement services providers to retain its appeal.

21. How would you recommend the Board establish a process to register participants and operate the clearinghouse effectively, efficiently, and in a manner that eliminates or reduces any liability on the part of the Board associated with registering participants and operating the clearinghouse?

Such a clearinghouse would require a great deal of effort to monitor and maintain and the Board should consider whether the need to conduct a due diligence review of the vendors listed on it would be required.

Developing the RFP for the market research, plan design and feasibility study

22. Do you have any recommendations for the type of firm, or firms, that would be most qualified and able to conduct the work necessary for the market research, feasibility and plan design study?

Consider a combination of independent companies with consulting experience in the retirement industry that have no retirement services operations of their own or no preferred relationships with any particular retirement services provider or investment manager. An independent retirement industry trade organization might also provide valuable experience in the aforementioned fields.

23. Are there firms that would be able to successfully conduct all aspects of the work, or is it likely the Board will have to contract with more than one firm?

While there are certainly firms capable of conducting all aspects of the work themselves, enlisting the services of more than one firm or entity offers broader perspective on a number of program elements and greater redundancy for the long-term viability of the program.

24. Do you have recommendations about requirements that should be included in the RFP either in terms of the scope of work required or the qualifications of bidders?

Any RFP should require the respondent to provide an overview of their firm, detail their qualifications as a provider, illustrate resources (headcount, organizational structure, etc.) and provide detail on their number of clients, assets under management or custodianship, the number of participants serviced and the organization's detail service standards

Strategies for seeking and securing funding for the market research, plan design and feasibility study

By statute, funding to complete the market and feasibility study can only be obtained from the contributions of private individuals, private nonprofit or for-profit entities, from federal sources or from any combination of such sources. The use of State funds or borrowing funds for the study is prohibited.

25. Do you have suggestions and/or examples for the types of organizations that might be able and willing to donate significant funding, or sources of federal funds that might be available for the study?

We have no recommendations in this area.

26. Given that some organizations do not or cannot donate directly to governments, will the fact that donated funds must be placed in a State of California account make it more difficult to raise money? If so, can you suggest funding solutions or arrangements that might help to avoid this difficulty while maintaining the state's independent oversight and jurisdiction over the study?

We have no recommendations in this area.

Timeline for the market research, plan design and feasibility study

Below is a timeline Secure Choice staff presented to the Board at their first meeting. The Board directed staff to revise the timeline and aim to implement the program and begin enrolling participants in 2015.

27. Do you have recommendations for revising the timeline in a manner that would allow for an earlier implementation date?

We have no recommendations in this area.